

BATH COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Bath Community Schools
Bath, Michigan

July 21, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bath Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools as of June 30, 2005 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2005, on our consideration of Bath Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Education
Bath Community Schools

July 21, 2005

The management's discussion and analysis and budgetary comparison information on pages vi - xi and 25, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bath Community Schools' basic financial statements. The additional information on pages 27 to 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costinison & Ellis, P.C.

Certified Public Accountants

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Bath Community Schools’ annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the District’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District’s general fund financial situation slightly improved from the 2004 fiscal year to 2005. This marked the 4th successive year in which the general fund showed improvement.

As expected, athletic fund had greater expenses for 2005 than revenue. This amount was budgeted in the general fund to cover the shortfall in the athletic fund.

The Food Services Department program had greater revenues for 2005 than expenses for a surplus of \$29,736.

During the 2004-2005 school year Bath Community Schools work was completed on the repaving of the middle school parking lot.

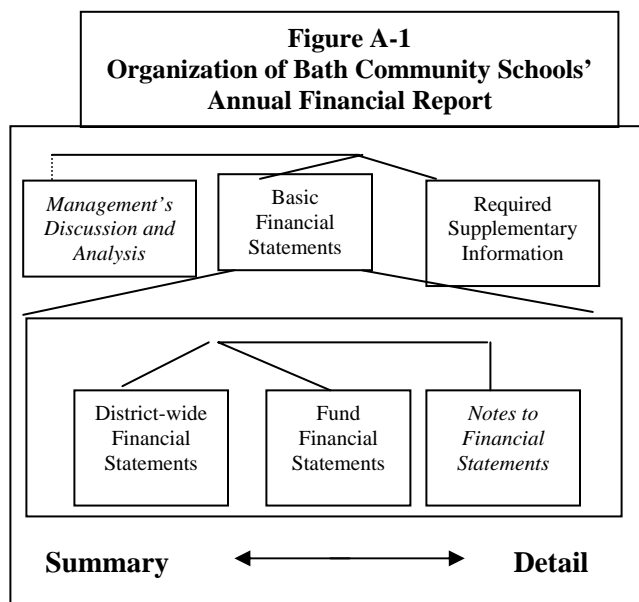
Total general fund revenues and expenses both exceeded \$7.2 million dollars with total general fund revenues exceeding expenses by \$14,637. The District continues to participate in short-term cash flow loans, borrowing \$1,195,000 against anticipated state aid payments.

Student enrollment showed a small increase.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2			
Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Bath's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were higher by \$474,549, on June 30, 2005 than the year before. The net asset position increased to \$14,549. The other impact is District depreciation which was \$421,131.

Table A-3 Bath Community Schools Net Assets		
	2005	2004
Current assets	\$ 17,345,242	\$ 3,803,802
Capital assets	11,386,894	9,449,399
Total assets	28,732,136	13,253,201
Long-term debt outstanding	25,023,551	10,837,719
Other liabilities	3,694,036	2,875,482
Total liabilities	28,717,587	13,713,201
Net assets:		
Invested in capital assets, net of related debt	(1,407,794)	(1,947,567)
Restricted	587,985	1,164,465
Unrestricted	834,358	323,102
Total net assets	\$ 14,549	\$ (460,000)

Table A-4 Changes in Bath Community Schools' Net Assets		
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 370,077	\$ 368,031
Federal and state categorical grants	528,466	461,300
General revenues:		
Property taxes	2,290,968	2,061,307
Investment	240,854	12,158
State aid - unrestricted	5,580,394	5,662,179
RESA	219,576	237,880
Other	49,484	17,584
Total revenues	9,279,819	8,820,439
Expenses:		
Instruction	4,450,123	4,144,371
Support services	2,477,258	2,400,878
Outgoing transfers and other	73,551	41,743
Community service	81,400	105,559
Food services	259,500	274,987
Athletics	183,401	199,164
Interest on long-term debt	858,906	497,593
Unallocated depreciation	421,131	472,287
Total expenses	8,805,270	8,136,582
Change in net assets	\$ 474,549	\$ 683,857

District Governmental Activities

The District's good financial shape has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$5,075 per student in 1995 to \$6,700 per student in 2005.
- Bath Community Schools changed the health insurance benefit to a higher deductible and prescription co-pay. The change in the benefit lowered the cost of premium, which resulted in a saving to the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The good financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balance of \$14.642 million compared to \$1.805 million in 2004. The fund balance increased by \$12.837 million for the year, primarily due to bond issuance proceeds of \$14,595,000.

Although total fund balances increased, the athletic fund had expenditures greater than revenues. For fiscal 2005, lunch prices increased and the cafeteria ended with a fund balance of \$95,032. The general fund contribution to the athletic fund brought this fund to its expected balance of nearly matching revenues to expenditures.

General Fund and Budget Highlights

During the 2005 fiscal year the original District budget was amended several times to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined. All programs and staff were maintained.

The final amended budget was to have revenue be \$238,442 lower than expenses. Final results showed that revenues came in higher than were anticipated and expenses came in lower than anticipated. The net result was a change in general fund balance of \$14,637, increasing the general fund balance to \$1,085,058 from \$1,070,421 at the end of fiscal year 2004.

General fund expenditures came within 2.32% budgeted. Inventory controls allowed the District to reduce expenditures for summer cleaning and preparation for fall school opening. Employee benefits and contracted services came in lower than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Bath Community Schools' Capital Assets				
	2005			2004
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 114,130	\$	\$ 114,130	\$ 114,130
Construction in progress	1,928,985		1,928,985	
Buildings and improvements	14,812,722	6,178,281	8,634,441	8,618,532
Machinery and equipment	2,781,292	2,366,619	414,673	513,155
Transportation equipment	579,067	371,493	207,574	203,582
Total	<u>\$ 20,216,196</u>	<u>\$ 8,916,393</u>	<u>\$ 11,299,803</u>	<u>\$ 9,449,399</u>

Capital asset purchases throughout fiscal 2005 included middle school parking lot improvements.

LONG-TERM DEBT

At year-end the District had \$25,844,733 long-term debt outstanding. More detailed information is available in Note 6 to the financial statements.

The District paid down its debt by \$848,378.

The District issued \$14,595,000 of bonds during the current fiscal year.

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

FACTORS BEARING ON THE DISTRICT'S FUTURE

- While the 2005-2006 foundation allowance has not been finalized by the State of Michigan, the foundation allowance represents 82 percent of total District revenue. The state is suggesting a \$175 increase in the per pupil foundation allowance but a weak state economy could require pro-rations in state aid.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts.
- Students count is projected to be steady over the next several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Bath Community Schools, 6175 E. Clark Road, Bath, Michigan 48808.

**BATH COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	ASSETS	Governmental activities
CURRENT ASSETS:		
Cash and cash equivalents		\$ 3,869
Investments		16,184,871
Receivables:		
Other governmental units		1,070,682
Interest income		66,056
Inventories		5,089
Prepaid expenditures		14,675
TOTAL CURRENT ASSETS		17,345,242
NONCURRENT ASSETS:		
Capital assets		20,216,196
Less accumulated depreciation		(8,916,393)
Deferred charges net of amortization		87,091
TOTAL NONCURRENT ASSETS		11,386,894
TOTAL ASSETS		\$ 28,732,136
	LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES:		
Accounts payable		\$ 907,590
Accrued expenses		185,428
Accrued salaries and related items		555,965
Deferred revenue		28,871
Note payable		1,195,000
Current portion of long-term obligations		746,182
Current portion of compensated absences		75,000
TOTAL CURRENT LIABILITIES		3,694,036
NONCURRENT LIABILITIES:		
Noncurrent portion of long-term obligations		24,716,994
Noncurrent compensated absences		306,557
TOTAL NONCURRENT LIABILITIES		25,023,551
TOTAL LIABILITIES		28,717,587
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt		(1,407,794)
Restricted - capital projects (sinking fund)		146,440
Restricted - debt service		441,545
Unrestricted		834,358
TOTAL NET ASSETS (DEFICIT)		14,549
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)		\$ 28,732,136

**BATH COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 4,450,123	\$	\$ 351,893	\$ (4,098,230)
Support services	2,477,258		61,890	(2,415,368)
Outgoing transfers and other transactions	73,551			(73,551)
Community services	81,400	137,483		56,083
Food services	259,500	181,720	114,683	36,903
Athletics	183,401	50,874		(132,527)
Interest on long-term debt	858,906			(858,906)
Unallocated depreciation	421,131			(421,131)
Total governmental activities	<u>\$ 8,805,270</u>	<u>\$ 370,077</u>	<u>\$ 528,466</u>	<u>(7,906,727)</u>
General revenues:				
Property taxes, levied for general purposes				780,582
Property taxes, levied for debt service				1,357,392
Property taxes, levied for sinking fund				152,994
Investment earnings				240,854
State sources				5,580,394
CCRESA transfers in				219,576
Other				49,484
Total general revenues				<u>8,381,276</u>
CHANGE IN NET ASSETS				474,549
NET ASSETS (DEFICIT), beginning of year				<u>(460,000)</u>
NET ASSETS (DEFICIT), end of year				<u><u>\$ 14,549</u></u>

**BATH COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General fund	2004 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash	\$ 250	\$ 3,619	\$	\$ 3,869
Investments	1,780,212	13,482,555	922,104	16,184,871
Receivables:				
Other governmental units	1,070,682			1,070,682
Interest income		66,056		66,056
Due from other funds	34,872		28,997	63,869
Inventories	800		4,289	5,089
Prepaid expenditures	14,675			14,675
TOTAL ASSETS	\$ 2,901,491	\$ 13,552,230	\$ 955,390	\$ 17,409,111
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 23,848	\$ 883,742	\$	\$ 907,590
Accrued expenses	16,096			16,096
Accrued salaries and related items	555,965			555,965
Deferred revenue	25,524		3,347	28,871
Due to other funds			63,869	63,869
Note payable	1,195,000			1,195,000
TOTAL LIABILITIES	1,816,433	883,742	67,216	2,767,391

	General fund	2004 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for debt service	\$	\$	\$ 610,877	\$ 610,877
Reserved for prepaid expenditures	14,675			14,675
Reserved for inventory	800		4,289	5,089
Reserved for capital projects		12,668,488	146,440	12,814,928
Designated for subsequent year's expenditures	363,392			363,392
Undesignated	706,191		126,568	832,759
TOTAL FUND BALANCES	<u>1,085,058</u>	<u>12,668,488</u>	<u>888,174</u>	<u>14,641,720</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,901,491</u>	<u>\$ 13,552,230</u>	<u>\$ 955,390</u>	<u>\$ 17,409,111</u>
Total governmental fund balance				\$ 14,641,720

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

The cost of the capital assets is

Accumulated depreciation is

The value of amortized bond issuance costs

Accumulated amortization

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable and unamortized premium

Compensated absences

Accrued interest is not included as a liability in government funds, it is recorded when paid

Net assets (deficit) of governmental activities

BATH COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General fund	2004 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	\$ 780,582	\$	\$ 1,510,386	\$ 2,290,968
Community services and tuition	137,483			137,483
Investment income	29,028	193,192	18,634	240,854
Other	48,515		233,563	282,078
Total local sources	995,608	193,192	1,762,583	2,951,383
State sources	5,889,846		13,860	5,903,706
Federal sources	104,331		100,823	205,154
Incoming transfers and other transactions	219,576			219,576
Total revenues	7,209,361	193,192	1,877,266	9,279,819
EXPENDITURES:				
Current:				
Instruction	4,317,292			4,317,292
Support services	2,589,937			2,589,937
Athletics			183,401	183,401
Community services	81,400			81,400
Food service			259,500	259,500
EXPENDITURES (Concluded):				
Current (Concluded):				
Outgoing transfers and other transactions	\$ 73,551	\$	\$	\$ 73,551
Capital outlay		1,928,985	260,518	2,189,503
Debt service:				
Principal retirement			810,000	810,000
Bond issuance cost		90,719		90,719
Interest and fiscal charges			633,591	633,591
Total expenditures	7,062,180	2,019,704	2,147,010	11,228,894
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	147,181	(1,826,512)	(269,744)	(1,949,075)
OTHER FINANCING SOURCES (USES):				
Proceeds from bond issuance		14,495,000		14,495,000
Premium from bond issuance		289,900		289,900
Operating transfers in	10,000		432,444	442,444
Operating transfers out	(142,544)	(289,900)	(10,000)	(442,444)
Total other financing sources (uses)	(132,544)	14,495,000	422,444	14,784,900
NET CHANGE IN FUND BALANCES	14,637	12,668,488	152,700	12,835,825
FUND BALANCES:				
Beginning of year	1,070,421		735,474	1,805,895
End of year	\$ 1,085,058	\$ 12,668,488	\$ 888,174	\$ 14,641,720

**BATH COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Net change in fund balances total governmental funds	\$ 12,835,825
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(421,131)
Capital outlay	2,283,442
Loss on disposal of fixed asset	(11,907)

Accrued interest on bonds is recorded in the statement of activities

when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	69,602
Accrued interest payable, end of the year	(169,332)

Proceeds and repayments of principal on long-term debt are other financing

sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities)

Proceeds from issuance of debt	(14,495,000)
Payments on bonds	810,000
Payments on notes payable	30,647
Premium on debt	(289,900)
Bond issuance costs	90,719
Amortization expense	(3,628)
Amortized premium	7,731
Long-term interest on school bond loan fund (accrued)	(84,514)
Long-term appreciation on capital appreciation bond (accrued)	(45,174)

Compensated absences are reported on the accrual method in the statement of activities,

and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and severance benefits, beginning of the year	248,726
Accrued compensated absences and severance benefits, end of the year	(381,557)

Change in net assets of governmental activities	\$ 474,549
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BATH COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	Agency funds
	<hr/>
ASSETS	
Investments	\$ 96,880
Due from general fund	<hr/> 6,166
	<hr/>
Total assets	<u><u>\$ 103,046</u></u>
LIABILITIES	
Due to student groups	<u><u>\$ 103,046</u></u>

BATH COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Bath Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Bath Community Schools (the "District") is governed by the Bath Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in GASB Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The following is a summary of the revenue and expenditures in the Bath Community Schools capital projects from the inception of the fund through the current fiscal year:

Revenues and bond proceeds	<u>\$ 14,978,092</u>
Expenditures and transfers	<u>\$ 2,309,604</u>

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects sinking fund* accounts for the receipt of the sinking fund millage proceeds and the acquisition of fixed assets or construction of capital projects. The District has complied with applicable provisions of §1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95 relating to sinking funds.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when appropriation is received.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0000
Capital projects - sinking fund - all properties	0.91
Debt Service Funds - all properties	8.0000

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue, debt service and capital projects funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, debt service and capital projects funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The District does not consider these amendments to be significant.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	\$ 820,526	0.0027	AAAm	5.04%
MILAF External Investment pool - MIMAX	2,078,855	0.0027	AAAm	12.77%
US Treasury Note	1,048,319	0.0264	AAA	6.44%
JP Morgan US Treasury Plus Money Market	2,723,405	0.0027	AAAm	16.73%
Government Agency Bonds	9,610,646	0.1700	AAA	59.02%
Total fair value	<u>\$ 16,281,751</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.2468</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2005, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$3,619 of the District's bank balance of \$3,619 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts are previously reported in Note 3:

Deposits	\$ 3,619
Petty cash	250
Investments	<u>16,281,751</u>
	<u><u>\$ 16,285,620</u></u>

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 3,869
Investments - Agency Fund	96,880
Investments - District wide	<u>16,184,871</u>
	<u><u>\$ 16,285,620</u></u>

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 114,130	\$ -	\$ -	\$ 114,130
Construction in progress		1,928,985		1,928,985
Total capital assets, not being depreciated	114,130	1,928,985		2,043,115
Capital assets, being depreciated:				
Land improvements	430,085	260,518		690,603
Buildings and additions	14,122,119			14,122,119
Machinery and equipment	2,750,329	38,463	7,500	2,781,292
Transportation equipment	581,306	55,476	57,715	579,067
Total capital assets, being depreciated	17,883,839	354,457	65,215	18,173,081
Accumulated depreciation:				
Land improvements	222,254	20,657		242,911
Buildings and additions	5,711,418	223,952		5,935,370
Machinery and equipment	2,237,174	136,945	7,500	2,366,619
Transportation equipment	377,724	39,577	45,808	371,493
Total accumulated depreciation	8,548,570	421,131	53,308	8,916,393
Net capital assets being depreciated	9,335,269	(66,674)	11,907	9,256,688
Net governmental capital assets	\$ 9,449,399	\$ 1,862,311	\$ 11,907	\$ 11,299,803

Depreciation for the fiscal year ended June 30, 2005 amounted to \$421,131. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2005, the District has a note payable outstanding of \$1,195,000. The note has an interest rate of 1.03% and matures August 19, 2005. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2004	Additions	Payments	Balance June 30, 2005
\$ 1,250,000	\$ 1,195,000	\$ 1,250,000	\$ 1,195,000

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

The following is a summary of the long-term debt transactions of the District for the year end June 30, 2005:

	Notes payable	General obligation bonds	School bond loan fund	Limited obligation Durant bonds	Sub-total Bonded & Notes	Compensated absences	Total
Balance, July 1, 2004	\$ 39,730	\$ 8,437,820	\$ 2,853,135	\$ 66,281	\$ 11,396,966	\$ 248,726	\$ 11,645,692
Additions		14,830,074	84,514		14,914,588	132,831	15,047,419
Deletions	30,647	817,731			848,378		848,378
Balance, June 30, 2005	9,083	22,450,163	2,937,649	66,281	25,463,176	381,557	25,844,733
Less current portion	9,083	732,077		5,022	746,182	75,000	821,182
Total due after one year	\$ -	\$ 21,718,086	\$ 2,937,649	\$ 61,259	\$ 24,716,994	\$ 306,557	\$ 25,023,551

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2005 is comprised of the following:

1991 capital appreciation bonds due in annual installments of \$390,000 through May 15, 2006 with an effective interest rate of 6.0% to 7.0%.	\$ 390,000
Unrealized appreciation on capital appreciation bonds.	(22,006)
1993 serial bonds due in annual installments of \$80,000 to \$100,000 through May 1, 2010, plus interest from 4.2% to 5.5%.	440,000
1995 serial bonds due in annual installments of \$5,000 to \$105,000 through May 1, 2014, with interest from 4.5% to 6.0%.	395,000
1998 refunding bonds with annual installments of \$270,000 to \$330,000 through May 1, 2025, plus interest from 3.4% to 4.5%.	6,540,000
Limited obligation (Durant) bonds with annual installments of \$5,022 to \$23,997 through May 15, 2013, plus interest at 4.76%. Certain State Aid payments have been pledged as security.	66,281
2004 serial bonds due in annual installments of \$75,000 to \$825,000 through May 1, 2029, with interest from 2.25% to 5.0%.	14,425,000
Unamortized premium on bonds.	<u>282,169</u>
Total bonded debt	22,516,444
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest.	2,937,649
Citizens Bank note for purchase of a bus with semi annual payments of \$9,237 through November 1, 2005, at 3.4% interest rate.	9,083
Obligation under contract form compensated absences and retirement incentives.	<u>381,557</u>
Total long-term debt	<u><u>\$ 25,844,733</u></u>

Interest expense (all funds) for the year ended June 30, 2005 was \$877,598.

An amount of \$610,877 is available in the debt service funds to service the general obligation debt.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding as of June 30, 2005, including interest of \$13,636,156, are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 834,105	\$ 984,067	\$ 1,818,172
2007	738,997	975,430	1,714,427
2008	745,511	941,899	1,687,410
2009	790,774	915,085	1,705,859
2010	816,048	885,343	1,701,391
2011	841,337	854,671	1,696,008
2012	841,638	822,561	1,664,199
2013	861,954	789,672	1,651,626
2014	865,000	754,925	1,619,925
2015	905,000	719,515	1,624,515
2016	955,000	682,160	1,637,160
2017	1,005,000	637,953	1,642,953
2018	1,055,000	591,205	1,646,205
2019	1,080,000	540,105	1,620,105
2020	1,080,000	487,590	1,567,590
2021	1,080,000	435,075	1,515,075
2022	1,105,000	382,560	1,487,560
2023	1,105,000	328,795	1,433,795
2024	1,130,000	275,030	1,405,030
2025	1,130,000	220,015	1,350,015
2026	825,000	165,000	990,000
2027	825,000	123,750	948,750
2028	825,000	82,500	907,500
2029	825,000	41,250	866,250
Total	22,265,364	13,636,156	35,901,520
Unamortized premium	282,169		282,169
Unrealized appreciation	(22,006)		(22,006)
	22,525,527	13,636,156	36,161,683
Due to school bond loan fund	2,937,649		2,937,649
Accumulated compensated absences	381,557		381,557
	<u>\$ 25,844,733</u>	<u>\$ 13,636,156</u>	<u>\$ 39,480,889</u>

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2005 are as follows:

Receivable Fund		Payable Fund	
General	\$ 34,872	Special revenue	\$ 33,708
Debt service	28,997	Debt service	30,161
	<u>\$ 63,869</u>		<u>\$ 63,869</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in accounting systems, and (3) payments between funds are made.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the period July 1, 2004 to September 30, 2004 was 12.99% and for October 1, 2004 to June 30, 2005 was 14.87%. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2005, 2004 and 2003 were approximately \$630,000, \$540,000 and \$520,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - CONTINGENCIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

NOTE 11 - TRANSFERS

The general fund transferred \$142,544 to the athletic fund during the current fiscal year to balance the athletic fund budget.

Also, the food service fund transferred \$10,000 to the general fund for indirect costs.

REQUIRED SUPPLEMENTARY INFORMATION

**BATH COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 942,263	\$ 938,867	\$ 995,608	\$ 56,741
State sources	5,775,720	5,858,298	5,889,846	31,548
Federal sources	126,986	106,472	104,331	(2,141)
Incoming transfers and other transactions	216,904	223,171	219,576	(3,595)
Total revenues	7,061,873	7,126,808	7,209,361	82,553
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	3,669,685	3,686,195	3,641,164	45,031
Added needs	763,746	707,431	676,128	31,303
Total instruction	4,433,431	4,393,626	4,317,292	76,334
Support services:				
Pupil	139,648	125,385	130,822	(5,437)
Instructional staff	280,777	307,975	286,690	21,285
General administration	239,161	282,375	257,352	25,023
School administration	485,145	453,349	422,975	30,374
Business	188,761	184,853	195,140	(10,287)
Operations/maintenance	747,943	755,377	756,196	(819)
Transportation	287,517	368,752	364,569	4,183
Other	161,758	176,507	176,193	314
Total support services	2,530,710	2,654,573	2,589,937	64,636

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
EXPENDITURES (Concluded):				
Current (Concluded):				
Community services	\$ 83,436	\$ 100,478	\$ 81,400	\$ 19,078
Outgoing transfers and other transactions	82,754	79,500	73,551	5,949
Total expenditures	7,130,331	7,228,177	7,062,180	165,997
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(68,458)	(101,369)	147,181	248,550
OTHER FINANCING SOURCES (USES):				
Operating transfer in		10,000	10,000	
Operating transfers out	(189,438)	(147,073)	(142,544)	4,529
Total other financing sources (uses)	(189,438)	(137,073)	(132,544)	4,529
NET CHANGE IN FUND BALANCE	<u>\$ (257,896)</u>	<u>\$ (238,442)</u>	<u>\$ 14,637</u>	<u>\$ 253,079</u>

ADDITIONAL INFORMATION

**BATH COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2005**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Capital projects</u>	<u>Total nonmajor governmental funds</u>
ASSETS				
ASSETS:				
Investments	\$ 163,623	\$ 612,041	\$ 146,440	\$ 922,104
Receivables:				
Due from other funds		28,997		28,997
Inventories	4,289			4,289
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 167,912</u>	<u>\$ 641,038</u>	<u>\$ 146,440</u>	<u>\$ 955,390</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Deferred revenue	\$ 3,347	\$	\$	\$ 3,347
Due to other funds	33,708	30,161		63,869
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>37,055</u>	<u>30,161</u>	<u> </u>	<u>67,216</u>
FUND BALANCES:				
Reserved for debt service		610,877		610,877
Reserved for inventories	4,289			4,289
Reserved for capital projects			146,440	146,440
Undesignated	126,568			126,568
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>130,857</u>	<u>610,877</u>	<u>146,440</u>	<u>888,174</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 167,912</u>	<u>\$ 641,038</u>	<u>\$ 146,440</u>	<u>\$ 955,390</u>

BATH COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2005

	Special revenue	Debt service	Capital projects	Total nonmajor governmental funds
REVENUES:				
Local sources:				
Property taxes	\$	\$ 1,357,392	\$ 152,994	\$ 1,510,386
Investment income	2,509	14,472	1,653	18,634
Other	233,563			233,563
Total local sources	236,072	1,371,864	154,647	1,762,583
State sources	13,860			13,860
Federal sources	100,823			100,823
Total revenues	350,755	1,371,864	154,647	1,877,266
EXPENDITURES:				
Current :				
Athletics	183,401			183,401
Food service	259,500			259,500
Capital outlay			260,518	260,518
Debt service:				
Principal retirement		810,000		810,000
Interest and fiscal charges		633,591		633,591
Total expenditures	442,901	1,443,591	260,518	2,147,010
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(92,146)	(71,727)	(105,871)	(269,744)
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(10,000)			(10,000)
Operating transfers in	142,544	289,900		432,444
Total other financing sources (uses)	132,544	289,900		422,444
NET CHANGE IN FUND BALANCES	40,398	218,173	(105,871)	152,700
FUND BALANCES:				
Beginning of year	90,459	392,704	252,311	735,474
End of year	\$ 130,857	\$ 610,877	\$ 146,440	\$ 888,174

**BATH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR JUNE 30, 2004**

ASSETS	School lunch fund	Athletics fund	Totals	
			2005	2004
Investments	\$ 127,798	\$ 35,825	\$ 163,623	\$ 89,541
Due from other funds				4,711
Inventory and prepaid expenditures	4,289		4,289	4,172
Total assets	<u>\$ 132,087</u>	<u>\$ 35,825</u>	<u>\$ 167,912</u>	<u>\$ 98,424</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$	\$	\$	\$ 1,316
Accrued salaries and related items				2,139
Deferred revenue	3,347		3,347	
Due to other funds	33,708		33,708	4,510
Total liabilities	<u>37,055</u>		<u>37,055</u>	<u>7,965</u>
Fund balances:				
Reserved for inventories and prepaid expenditures	4,289		4,289	4,172
Undesignated	90,743	35,825	126,568	86,287
Total fund balances	<u>95,032</u>	<u>35,825</u>	<u>130,857</u>	<u>90,459</u>
Total liabilities and fund balances	<u>\$ 132,087</u>	<u>\$ 35,825</u>	<u>\$ 167,912</u>	<u>\$ 98,424</u>

**BATH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004**

	School lunch fund	Athletics fund	Totals	
			2005	2004
REVENUES:				
Food service	\$ 181,720	\$	\$ 181,720	\$ 179,290
Athletics		50,874	50,874	47,662
Interest	1,864	645	2,509	560
State sources	13,860		13,860	14,169
Federal sources	100,823		100,823	96,857
Other	969		969	338
Total revenues	299,236	51,519	350,755	338,876
EXPENDITURES:				
Salaries and wages	97,516	116,024	213,540	233,540
Employee benefits	24,001	26,596	50,597	34,049
Supplies and other expenses	137,983	40,781	178,764	206,562
Total expenditures	259,500	183,401	442,901	474,151
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	39,736	(131,882)	(92,146)	(135,275)
OTHER FINANCING SOURCES (USES):				
Operating transfer to general fund	(10,000)		(10,000)	
Operating transfer in from general fund		142,544	142,544	142,032
Total other financing sources (uses)	(10,000)	142,544	132,544	142,032
NET CHANGE IN FUND BALANCES	29,736	10,662	40,398	6,757
FUND BALANCES:				
Beginning of year	65,296	25,163	90,459	83,702
End of year	\$ 95,032	\$ 35,825	\$ 130,857	\$ 90,459

**BATH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR JUNE 30, 2004**

	Debt service funds						Totals	
ASSETS	<u>1973</u>	<u>1991</u>	<u>1993</u>	<u>1995</u>	<u>1998</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Investments	\$ 11,915	\$ 184,004	\$ 63,459	\$ 145,765	\$ 204,721	\$ 2,177	\$ 612,041	\$ 393,867
Due from other funds		<u>12,995</u>			<u>16,002</u>		<u>28,997</u>	<u>28,997</u>
Total assets	<u>\$ 11,915</u>	<u>\$ 196,999</u>	<u>\$ 63,459</u>	<u>\$ 145,765</u>	<u>\$ 220,723</u>	<u>\$ 2,177</u>	<u>\$ 641,038</u>	<u>\$ 422,864</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Due to other funds	\$ 11,259	\$	9,097	9,805	\$	\$	\$ 30,161	\$ 30,160
Fund balances, reserved for debt service	<u>656</u>	<u>196,999</u>	<u>54,362</u>	<u>135,960</u>	<u>220,723</u>	<u>2,177</u>	<u>610,877</u>	<u>392,704</u>
Total liabilities and fund balances	<u>\$ 11,915</u>	<u>\$ 196,999</u>	<u>\$ 63,459</u>	<u>\$ 145,765</u>	<u>\$ 220,723</u>	<u>\$ 2,177</u>	<u>\$ 641,038</u>	<u>\$ 422,864</u>

**BATH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004**

	Debt service funds						Totals	
	1973	1991	1993	1995	1998	2004	2005	2004
REVENUES:								
Local sources:								
Property taxes	\$ 22	\$ 515,095	\$ 131,414	\$ 346,413	\$ 296,367	\$ 68,081	\$ 1,357,392	\$ 1,238,994
Interest on investments	122	3,700	1,402	2,864	4,354	2,030	14,472	1,703
Total revenues	144	518,795	132,816	349,277	300,721	70,111	1,371,864	1,240,697
EXPENDITURES:								
Principal retirement		380,000	85,000	230,000	45,000	70,000	810,000	730,000
Interest and fiscal charges			28,680	33,389	283,688	287,834	633,591	361,411
Total expenditures		380,000	113,680	263,389	328,688	357,834	1,443,591	1,091,411
EXCESS OF REVENUES OVER EXPENDITURES	144	138,795	19,136	85,888	(27,967)	(287,723)	(71,727)	149,286
OTHER FINANCING SOURCES:								
Transfer from capital projects						289,900	289,900	
NET CHANGE IN FUND BALANCES	144	138,795	19,136	85,888	(27,967)	2,177	218,173	149,286
FUND BALANCES, beginning of year	512	58,204	35,226	50,072	248,690		392,704	243,418
FUND BALANCES, end of year	<u>\$ 656</u>	<u>\$ 196,999</u>	<u>\$ 54,362</u>	<u>\$ 135,960</u>	<u>\$ 220,723</u>	<u>\$ 2,177</u>	<u>\$ 610,877</u>	<u>\$ 392,704</u>

**BATH COMMUNITY SCHOOLS
CAPITAL PROJECTS FUND - SINKING FUND
BALANCE SHEET
JUNE 30, 2005**

ASSETS

Investments	\$ 146,440
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LIABILITIES AND FUND BALANCE

Fund balance - reserved for capital projects	\$ 146,440
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**BATH COMMUNITY SCHOOLS
CAPITAL PROJECTS FUND - SINKING FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2005**

REVENUES:

Interest on investments	\$ 1,653
Property taxes	<u>152,994</u>
Total revenues	154,647

EXPENDITURES:

Capital outlay	<u>260,518</u>
----------------	----------------

NET CHANGE IN FUND BALANCE	(105,871)
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FUND BALANCE:

Beginning of year	<u>252,311</u>
End of year	<u><u>\$ 146,440</u></u>

**BATH COMMUNITY SCHOOLS
AGENCY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2005**

	Balance				Balance
	July 1, 2004	Additions	Deletions		June 30, 2005
Elementary Fund:					
Fund	\$ 12,539	\$ 25,456	\$ 27,667	\$	10,328
Library	994	8,841	8,358		1,477
4TH Grade Swimming	(1,275)				(1,275)
Picture Fund	1,294	2,791	3,866		219
Music	21	1,298	1,303		16
Kdg Projects	350		350		
Rolling Readers	(5)				(5)
Visiting Authors	179		187		(8)
Pop Fund	292	174	414		52
Middle School Fund:					
Art	18				18
Band	555	3,323	3,269		609
Coffee/pop	41				41
Library	602	1,345	1,760		187
Jr. Honor Society	5,536	13,389	10,568		8,357
Miscellaneous	6,515	13,036	12,944		6,607
Special Education	20				20
Student Council	6,091	3,227	3,799		5,519
Yearbook	947	3,301	3,231		1,017
Drama	1,889				1,889
7th Grade	4,204	36,251	35,654		4,801
8th Grade	(31)				(31)
Pop Fund	961	199	36		1,124
High School Fund:					
Art	230	353	163		420
Advanced Physical Education	7	418	404		21
International Club	1,181		935		246
Band	(40)	230	230		(40)

**BATH COMMUNITY SCHOOLS
AGENCY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2005**

	Balance				Balance
	July 1, 2004	Additions	Deletions		June 30, 2005
High School Fund (Continued):					
Journalism	\$ 147	\$ 203	\$ 108	\$	242
Boys Basketball	2				2
Dance	110				110
Class of 1995	50				50
We care club	160				160
Class of 2005	1,771	22,981	22,412		2,340
Drama Club	770		156		614
Pop Fund	393	365	415		343
Home Economics	14				14
National Honor Society	(3)	345	243		99
Quiz Bowl	361		88		273
Slaam	774	320	623		471
Spanish	34	184	218		-
Student Council	2,355	1,628	1,414		2,569
Varsity Club	604				604
Yearbook	7,017	20,380	22,715		4,682
Miscellaneous	6,606	5,753	5,543		6,816
Class of 2002	200				200
Class of 1993	290				290
Tasa	(163)	3,058	2,895		
Class of 1996	228				228
Class of 1997	134				134
Academic Boosters	387	1,705	1,988		104
Class of 1999	589				589
Class of 2006	1,435	2,884	3,061		1,258
Class of 2003	299				299
Class of 2004	520				520

**BATH COMMUNITY SCHOOLS
AGENCY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2005**

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
High School Fund (Concluded):				
Cross Country	\$ 593	\$ -	\$ -	\$ 593
High School Band Trip	526			526
HS Athletic Director Discretionary Fund	388	747	786	349
Biology	685	2,376	2,851	210
Class of 2007	524	2,926	2,980	470
Class of 2008		3,185	1,957	1,228
 Harte Memorial	 3,982			 3,982
Scholarship Fund	49			49
Michael Bargo Memorial	(33)			(33)
J. Peltier Memorial Library Fund	210			210
 Benevolent Fund	 790	 2,738	 3,513	 15
Liz Schaibly Memorial	20			20
J. Broviac Memorial	22,144	1,581	2,534	21,191
VFW Scholarship	2,400			2,400
 VFW Auxiliary Scholarship	 (300)	 1,400	 300	 800
Spirit of Bath playground project	140			140
Beehive Fundraising	1,436	11,537	10,360	2,613
Summer Basketball Camp	77			77
 Comm Ed Trips	 270			 270
Bath Education Foundation	118			118
Technology	45			45
Retirement	(456)			(456)
Special school supplies	827	100		927
 Environmental Club	 93	 2,224	 2,005	 312
Senior Class Sign Account	2,370			2,370
	<u>\$ 105,097</u>	<u>\$ 202,252</u>	<u>\$ 204,303</u>	<u>\$ 103,046</u>

**BATH COMMUNITY SCHOOLS
GENERAL FUND
STATEMENTS OF REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Property taxes	\$ 774,328	\$ 680,723
Delinquent taxes and interest	6,254	1,228
Community education	137,483	141,079
Interest	29,028	9,176
Other	<u>48,515</u>	<u>17,246</u>
Total local sources	<u>995,608</u>	<u>849,452</u>
State sources:		
Foundation	5,780,142	5,802,543
Categorical	97,888	74,390
Durant settlement	10,375	10,375
Teacher technology initiative		500
Drivers' education	<u>1,441</u>	<u>4,871</u>
Total state sources	<u>5,889,846</u>	<u>5,892,679</u>
Federal sources:		
Title I - regular	63,455	81,861
Title II	1,436	1,918
Class size reduction	33,844	34,316
Drug free		(483)
Not on tobacco grant		1,400
FEMA grant	1,000	
Homeland security grant	4,004	
Other	<u>592</u>	<u>762</u>
Total federal sources	<u>104,331</u>	<u>119,774</u>
Other sources:		
Incoming transfers and other transactions	<u>219,576</u>	<u>280,547</u>
Total revenues	<u><u>\$ 7,209,361</u></u>	<u><u>\$ 7,142,452</u></u>

BATH COMMUNITY SCHOOLS
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2005
With comparative totals for the year ended June 30, 2004

	Salaries	Employee benefits	Purchased services	Supplies and materials	Other expenses	Capital outlay	Totals	
							2005	2004
Instruction:								
Elementary	\$ 1,035,145	\$ 480,058	\$ 12,050	\$ 26,123	\$ 492	\$ 517	\$ 1,554,385	\$ 1,498,452
Middle school	606,285	264,452	292	9,428	731		881,188	793,617
High school	757,386	332,762	7,700	16,295	2,027		1,116,170	1,001,235
Preschool	18,722	4,950	745	2,866			27,283	28,014
Special education	352,466	143,130	375	1,906	2,451		500,328	563,302
Summer school			1,213	60,925			62,138	29,507
Compensatory education	118,424	57,046	330				175,800	166,349
Total instruction	2,888,428	1,282,398	22,705	117,543	5,701	517	4,317,292	4,080,476
Support services:								
Guidance	75,917	46,126	954	541	5,468		129,006	77,388
Health service			1,259	557			1,816	2,455
Instructional staff	75,240	24,563					99,803	108,711
Improvement of instruction				1,086	315		1,401	1,531
Library	129,103	45,448		5,798	3,387		183,736	179,849
Audio visual				1,750			1,750	7,228
Board of education	1,569		41,078	1,051	6,026		49,724	47,357
Executive administration	126,756	57,112	19,370	1,377	3,013		207,628	223,327
Office of principal	265,498	98,552	51,081	2,671	1,432	3,741	422,975	492,848
Fiscal services	58,387	17,275	19,035	2,558	1,111		98,366	115,035

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2005**

\$2,250,000 Capital appreciation bonds issued August 29, 1991:

	Principal due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
	\$ 390,000	2006	\$ 390,000
Unamortized discount of capital appreciation bonds	(22,006)		
	\$ 367,994		

The above bonds do not pay interest, but were issued at an original discount. An amortization of the discount provides the bonds with an effective yield of 6.0% to 7.0%. The bond proceeds were used for repayment of Michigan School Bond Loan fund.

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2005**

\$945,000 Bonds issued August 10, 1993

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 80,000	\$ 11,930	\$ 11,930	2006	\$ 103,860
80,000	9,810	9,810	2007	99,620
80,000	7,660	7,660	2008	95,320
100,000	5,500	5,500	2009	111,000
100,000	2,750	2,750	2010	105,500
<u>\$ 440,000</u>	<u>\$ 37,650</u>	<u>\$ 37,650</u>		<u>\$ 515,300</u>

The above bond issue bears interest at rates ranging from 4.2% to 5.5%. The bond proceeds were used for refunding bonds from the 1988 School Capital Projects and Site Bond Issue.

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2005**

\$8,625,000 Bonds issued November 28, 1995 and partially refunded on November 3, 1998

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 5,000	\$ 11,019	\$ 11,019	2006	\$ 27,038
5,000	10,896	10,896	2007	26,792
5,000	10,770	10,770	2008	26,540
5,000	10,640	10,640	2009	26,280
5,000	10,507	10,507	2010	26,014
105,000	10,372	10,372	2011	125,744
105,000	7,484	7,484	2012	119,968
100,000	4,544	4,544	2013	109,088
60,000	1,704	1,704	2014	63,408
<u>\$ 395,000</u>	<u>\$ 77,936</u>	<u>\$ 77,936</u>		<u>\$ 550,872</u>

The above bond issue bears interest at rates ranging from 4.5% to 6.0%. The bond proceeds were used for building, furnishing, and equipping an addition to the elementary school, acquire, and install technology equipment, partially remodel elementary, middle and high schools, develop and improve playgrounds and sites, and refunding bonds from the 1988 School Capital Projects fund.

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2005**

\$6,810,000 Bonds issued November 3, 1998

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 270,000	\$ 140,828	\$ 140,827	2006	\$ 551,655
330,000	135,630	135,630	2007	601,260
330,000	129,195	129,195	2008	588,390
330,000	122,678	122,677	2009	575,355
330,000	116,078	116,077	2010	562,155
330,000	109,395	109,395	2011	548,790
330,000	102,630	102,630	2012	535,260
330,000	95,783	95,782	2013	521,565
330,000	88,853	88,852	2014	507,705
330,000	81,758	81,757	2015	493,515
330,000	74,580	74,580	2016	479,160
330,000	67,320	67,320	2017	464,640
330,000	59,978	59,977	2018	449,955
330,000	52,553	52,552	2019	435,105
330,000	45,045	45,045	2020	420,090
330,000	37,538	37,537	2021	405,075
330,000	30,030	30,030	2022	390,060
330,000	22,523	22,522	2023	375,045
330,000	15,015	15,015	2024	360,030
330,000	7,508	7,507	2025	345,015
<u>\$ 6,540,000</u>	<u>\$ 1,534,918</u>	<u>\$ 1,534,907</u>		<u>\$ 9,609,825</u>

The above bond issue bears interest at rates ranging from 3.4% to 4.5%. The bond proceeds were used to partially refund bonds from the 1995 school capital projects fund.

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2005**

\$14,495,000 Bonds issued November 1, 2004

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 75,000	\$ 327,125	\$ 327,125	2006	\$ 729,250
300,000	326,188	326,187	2007	952,375
325,000	322,438	322,437	2008	969,875
350,000	317,969	317,969	2009	985,938
375,000	312,719	312,718	2010	1,000,437
400,000	307,094	307,094	2011	1,014,188
400,000	300,844	300,843	2012	1,001,687
425,000	294,344	294,344	2013	1,013,688
475,000	286,907	286,906	2014	1,048,813
575,000	278,000	278,000	2015	1,131,000
625,000	266,500	266,500	2016	1,158,000
675,000	251,656	251,656	2017	1,178,312
725,000	235,625	235,625	2018	1,196,250
750,000	217,500	217,500	2019	1,185,000
750,000	198,750	198,750	2020	1,147,500
750,000	180,000	180,000	2021	1,110,000
775,000	161,250	161,250	2022	1,097,500
775,000	141,875	141,875	2023	1,058,750
800,000	122,500	122,500	2024	1,045,000
800,000	102,500	102,500	2025	1,005,000
825,000	82,500	82,500	2026	990,000
825,000	61,875	61,875	2027	948,750
825,000	41,250	41,250	2028	907,500
825,000	20,625	20,625	2029	866,250
<u>\$ 14,425,000</u>	<u>\$ 5,158,034</u>	<u>\$ 5,158,029</u>		<u>\$ 24,741,063</u>

The above bond issue bears interest at rates ranging from 2.25% to 5.0%. The bond proceeds were used for erecting, furnishing and equipping an addition to and partially remodeling, refurnishing and re-equipping existing school buildings, acquiring and installing education technology, constructing and equipping improvements to the stadium and outdoor athletic facilities, erecting, furnishing and equipping a gymnasium and locker rooms as an addition to the high school and developing and improving the sites.

**BATH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
JUNE 30, 2005**

\$103,746 Limited Obligation (Durant) Bonds issued November 24, 1998

Principal due May 15	Interest due May 15	Debt service requirement for fiscal year June 30	Amount
\$ 5,022	\$ 2,264	2006	\$ 7,286
23,997	10,383	2007	34,380
5,511	1,774	2008	7,285
5,774	1,512	2009	7,286
6,048	1,237	2010	7,285
6,337	949	2011	7,286
6,638	647	2012	7,285
6,954	331	2013	7,285
<u>\$ 66,281</u>	<u>\$ 19,097</u>		<u>\$ 85,378</u>

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**BATH COMMUNITY SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL BOND LOAN FUND
JUNE 30, 2005**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Accrued interest	Net increase
1996 and prior	\$ 417,292	\$ 21,649	\$ 438,941
1997	411,863	31,094	442,957
1998	381,236	59,951	441,187
1999	342,437	75,995	418,432
2000	233,810	94,748	328,558
2001	217,000	107,362	324,362
2002	130,484	103,175	233,659
2003	56,168	90,428	146,596
2004		78,443	78,443
2005		84,514	84,514
Total	<u>\$ 2,190,290</u>	<u>\$ 747,359</u>	<u>\$ 2,937,649</u>



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Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Bath Community Schools
Bath, Michigan

July 21, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools' as of and for the year ended June 30, 2005, which collectively comprise Bath Community Schools' basic financial statements and have issued our report thereon dated July 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bath Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education
Bath Community Schools

July 21, 2005

However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Bath Community Schools in a separate letter dated July 21, 2005.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education and Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costinison & Ellis, P.C.

Certified Public Accountants



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July 21, 2005

To the Board of Education
Bath Community Schools
Bath, Michigan

In planning and performing our audit of the financial statements of Bath Community Schools for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated July 21, 2005, on the financial statements of Bath Community Schools.

Initial Cash Receipts Listing

The District currently maintains an initial listing of cash receipts but does not include any of the receipts from the activity funds or the athletic fund. The purpose of maintaining an initial cash listing is so that periodic reconciliations can be done between the initial listing and the bank statement. A listing without all of the receipts makes this reconciliation difficult. We recommend that all receipts be recorded on the initial listing. In addition, a person who does not have access to the general ledger should compare the initial cash receipts listing to the deposits reported on the bank statement.

Numerical Check Sequence

During our review of the internal control system, we noted that there are no specific procedures for verifying numerical check sequence. We suggest that the authorized check signer, or the board treasurer, maintain a log recording the beginning and ending check number for each check run. Any check numbers that are missing should be questioned and voided checks viewed for verification. This will further ensure that all checks disbursed are authorized and all checks are accounted for.

Due To/From

The balances in the due to/from accounts should be reviewed and adjusted accordingly. It is our understanding this will be addressed in the next fiscal year.

New Rules for §403(b) Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used. This rule applies for tax years beginning after 2005.

We would recommend that you contact your attorney before the end of 2005 to assure you comply.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Bath Community Schools
Bath, Michigan

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July 21, 2005

This report is intended solely for the information and use of Bath Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costinison & Ellis, P.C.



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July 21, 2005

To the Finance Committee
Bath Community Schools
Bath, Michigan

We have audited the financial statements of Bath Community Schools for the year ended June 30, 2005, and have issued our report thereon dated July 21, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated June 27, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Bath Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Bath Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bath Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by Bath Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of the payout for employee compensated absences upon their retirement is based on expected payout; the balance reported was \$392,057. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Bath Community School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Bath Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Bath Community School's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Bath Community School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Bath Community Schools and management of Bath Community Schools and is not intended to be and should not be used by anyone other than these specific parties.

Maner, Costinison & Ellis, P.C.